CANADA MORTGAGE AND HOUSING CORPORATION

HOUSING MARKET OUTLOOK

Toronto CMA

Date Released: Spring 2007

New Home Market

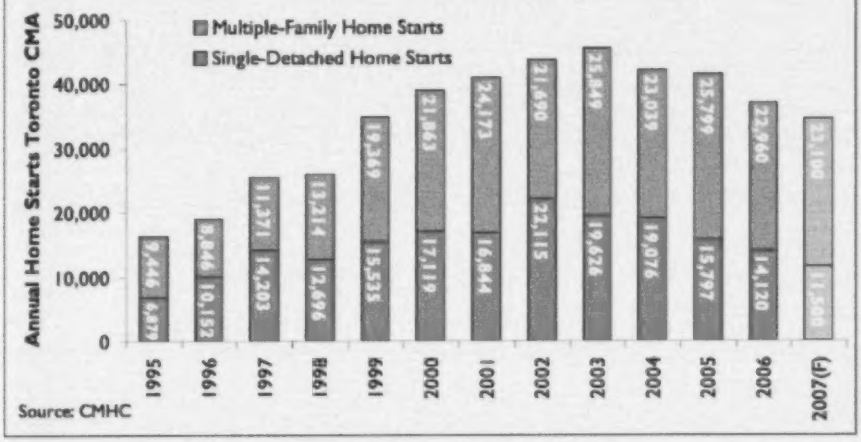
Two key trends will continue in the Toronto Census Metropolitan Area (CMA) new home market in 2007. First, total housing starts will continue to edge lower. Second, the share of total new home sales and starts accounted for by multiple-family home types will increase.

Less Spillover from Resale Market

Increased choice in the existing home market over the past three years prompted more home buyers to meet their housing needs through the purchase of a resale home. Fewer prospective buyers have been visiting pre-construction sales centres. As a result, the number of total

Figure 1

Housing Starts Trending Lower in 2007



Source: CMHC

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housing starts has declined year-over-year since 2003. New home sales and starts will continue to trend lower in 2007. New home sales will decline by 7.8 per cent to 36,500. Total starts will decline by seven per cent to 34,600.

Over the next five years, the level of new home starts will approach the long-term average of 30,000 starts experienced in the metropolitan area over the last two market cycles. This number is in line with the average number of new households formed annually in the Toronto area.

Multiple-Family Starts More Popular

As the number of total starts continues to move lower, another trend will also persist: a shift towards a greater share of multiple-family home types (semi-detached houses, row houses and apartments), especially condominium apartments.

The rising cost of home construction has triggered increased sales and construction of multiple-family homes. Since the late 1990s, when home construction in the Toronto area began trending upwards, the cost of land and labour has escalated steadily. In order to remain profitable, home builders have passed these increased costs on to home buyers, at least in part.

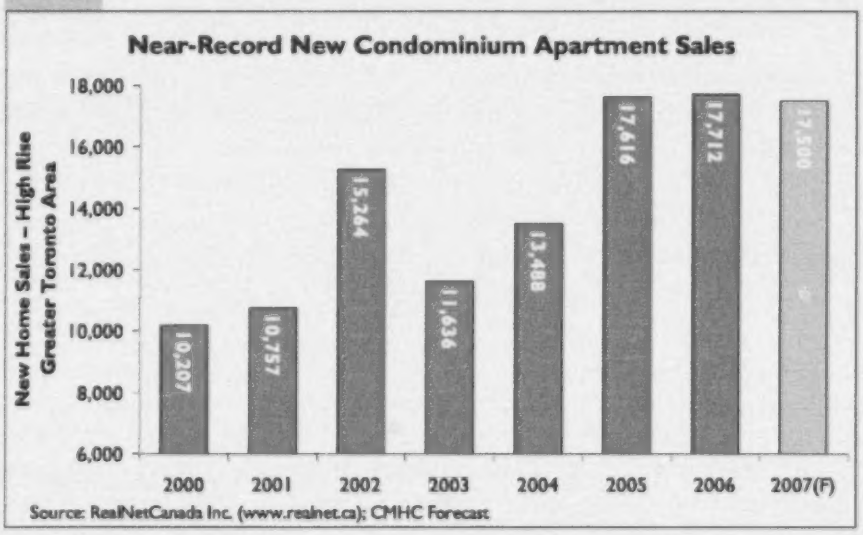
Today, some households, especially those considering the purchase of their first home are finding the price of new single-detached homes too expensive. For example, the median price of a new single-detached house in the Toronto CMA was over $441,000 in the first quarter of 2007. Assuming a 25 per cent down payment on the average priced new single and the average posted five-year fixed mortgage rate at the end of the first quarter, the average monthly mortgage carrying cost amounted to approximately $2,220. Adhering to the rule-of-thumb gross debt to service ratio of 32 per cent, the annual household income required to carry this mortgage would be $83,000. This required income is above the median household income for the Toronto area.

In response to high single-detached home prices and related mortgage carrying costs, some buyers have opted for the purchase of a less-expensive multiple-family home. Condominium apartments have become increasingly popular in the multiple-family category. In 2007, condominium apartment starts and sales will be in line with the record and near-record levels experienced over the past two years.

Geography of Condo Development Expanding

In the mid to late 1990s, as the growth phase of the new home construction cycle was commencing, condominium apartment construction was predominantly located in Toronto's downtown core and north along the Yonge Street corridor. The condominium development landscape has changed dramatically over the past decade. Over the next year, development nodes will continue to expand in regions outside of the former City of Toronto. Large developments in the expanding Mississauga City Centre area will reach the construction stage. In York Region, construction will begin on a number projects, including some that are within master-planned communities that include a mixture of low and high-rise housing.

Figure 2



The End-User/Investor Dichotomy

The stock of apartments registered under condominium corporations continued to be dominated by end-users in 2006. Almost 80 per cent of registered condominium units were held by end-users last year, according to the 2006 CMHC *Rental Market Report*. It is important to note, however, that the absolute number of investor-held units increased noticeably last year to almost 42,000 compared to almost 35,000 in 2005. This suggests that the number of units purchased by investors at the pre-construction stage of development has increased. As completions of condominium apartments remain at record levels in 2007, the number and share of registered investor-held units in will increase.

Some investors will choose to list their units for sale upon completion and registration, in order to take advantage of market price gains occurring between pre-construction purchase and registration. Other investors will take advantage of the very low average vacancy rates for condominium apartments (0.4 per cent in 2006), rent their units and take advantage of longer-term price appreciation.

Demand Drivers

Steady Job Creation

The local economy will continue to create jobs this year. Employment is forecast to grow by 1.7 per cent in 2007 – a rebound from 1.4 per cent in 2006. While this rate of growth is lower than what has been experienced over the better part of the last decade, it is important to note that the labour market in the Toronto area is very tight. The unemployment rate is low compared to the 1990s, which means that the majority of people who want to work currently have a job. Tight labour market conditions this year will continue to result in average increases in wages and salaries above the rate of inflation.

Employment growth will not occur evenly across all sectors of the local economy. Similar to other regions in southern Ontario, the manufacturing sector in Toronto is not expected to be a source of job creation. Instead, employment gains will be realized in finance, insurance and real estate, trade and other service industries.

Sustained Net Migration

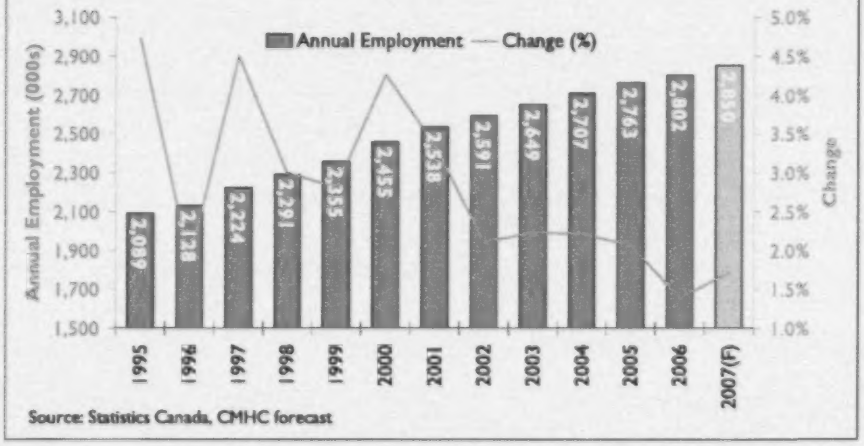
Steady labour market conditions will have a positive influence on the demand for housing. Young people, who have gained full-time employment, will continue to decouple from their parents and move into homes of their own. With baby boomers moving beyond their child-bearing years, net new migration has increasingly become the main engine of population growth and, by extension, housing demand. The number of migrants, particularly international immigrants, attracted to the Toronto area by the steady job prospects will be increasing while the outflow, mainly to western Canada, is expected to slow. In 2007, on balance 65,000 net new migrants are forecast to settle in the Toronto area.

Low Borrowing Costs

A combination of a slowing economy, strong Canadian dollar vis-à-vis the

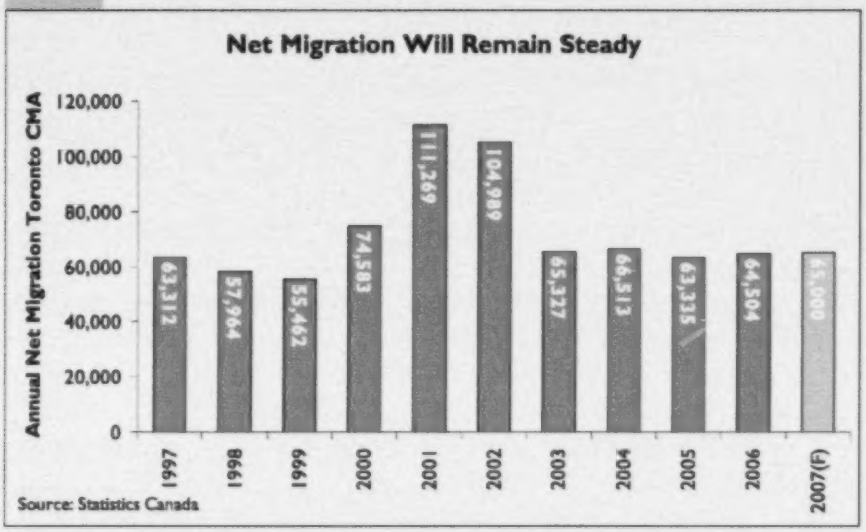
Figure 3

Steady Job Growth Will Continue



Source: Statistics Canada, CMHC forecast

Figure 4



U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008.

Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months while the long-term mortgage rates will rise slightly in line with bond rates.

One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively over the rest of this year and in 2008.

Resale Market

Near-Record Sales

Existing home sales in 2007 will remain near the record of over 85,000. Favourable conditions in the local economy coupled with low borrowing costs will keep prospective home buyers confident in their ability to purchase and pay for a home over the long term.

More Choice for Buyers

While MLS® sales will remain at a near-record plateau, the number of new listings will continue to grow in 2007. Home owners will list their homes in greater numbers in order to take occupancy of completed new homes or to trade up on the strength of strong equity gains experienced since the late 1990s. More listings relative to sales will result in more choice for buyers.

Buyers benefit from more choice, because a better-supplied market is generally associated with more moderate annual price growth. When buyers have more homes to choose from, they will arguably be less likely to make offers at or above list, or to enter into "bidding wars" with other buyers. The result is that growth in average home prices moves closer to the rate of inflation. In 2007, the average sales price for existing homes will grow by four per cent to $366,500. The 2007 growth rate will be lower than the 2006 and 2005 growth rates of 4.8 per cent and 6.5 per cent respectively.

Cost of Home Ownership Remains Low

While the growth rate for the average existing home price is edging lower,

Figure 5

Figure 6

home prices are high historically, from both a nominal and real (i.e. inflation-adjusted) perspective. High home prices have been a point of concern for some housing market participants. It is important to note, however, the difference between the price of a home and the cost of home ownership. The single greatest component of ownership cost is the principal and interest payment associated with a mortgage. Assuming a 25 per cent down-payment on a home priced at the forecast median for 2007 and the average posted five-year fixed mortgage rate at the end of the first quarter amortized over 25 years, the monthly mortgage carrying cost would amount to $1,565. Assuming the rule of thumb gross debt service ratio of 32 per cent, the household income required to comfortably carry this mortgage would be $59,000. This is below the estimated median household income for Toronto in 2007.

The average mortgage carrying cost remaining at a manageable level in 2007 reflects the fact that in real terms the average principal and interest payment will be approximately 65 per cent of the level experienced during the price peak of the last housing market cycle in 1989.

Resale Prices Vary Geographically

In a large metropolitan area like the Toronto CMA, market conditions are not uniform throughout the region. Continuing through the first quarter of 2007, seller's market conditions prevailed in Central Toronto and some areas of Halton Region. These areas should experience price growth above the forecast average in 2006. In contrast, some areas within Durham Region, including Ajax and Pickering, are experiencing more balanced market conditions with more listings relative to sales. Price growth will likely be below the forecast average in many parts of the eastern GTA.

Rental Market Outlook

Demand for rental housing will continue to increase in 2007. The vacancy rate will edge lower for the third straight year to 3.0 per cent. Fewer vacant units will prompt further rent increases on the part of rental property owners and/or managers. The average rent for a two bedroom apartment will move up to $1,086.

While demand for home ownership remains strong in the Toronto area, the gap between the average cost of home ownership and renting will continue to increase. More households who are on the margin between renting and owning will put their home-buying decision on hold.

Immigration will continue to be the driving force behind net-migration into Toronto this year. The majority of new-comers to Canada, and indeed Toronto, initially find accommodation in the rental market.

Mortgage Rate Forecast

Mortgage Rates Will Remain Low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the

Figure 7

One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively over the rest of this year and in 2008.

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Forecast SUMMARY Toronto CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	84,854	85,672	84,842	85,000	0.2	83,000	-2.4
MLS® New Listings	145,023	151,352	158,097	162,000	2.5	164,500	1.5
MLS® Average Price ($)	315,266	336,176	352,388	366,500	4.0	377,500	3.0
New Home Market							
Starts:							
Single-Detached	19,076	15,797	14,120	11,500	-18.6	10,500	-8.7
Multiples	23,039	25,799	22,960	23,100	0.6	22,000	-4.8
Semi-Detached	3,526	3,375	2,892	2,500	-13.6	2,000	-20.0
Row/Townhouse	5,873	6,516	5,177	4,600	-11.1	4,000	-13.0
Apartments	13,640	15,908	14,891	16,000	7.4	16,000	0.0
Starts - Total	42,115	41,596	37,080	34,600	-6.7	32,500	-6.1
Average Price ($):							
Single-Detached	375,013	418,938	466,230	525,000	12.6	588,000	12.0
Median Price ($):							
Single-Detached	334,990	375,000	403,990	454,500	12.5	509,000	12.0
New Housing Price Index (1997=100) (Toronto-Oshawa)	5.9	4.5	3.8		3.0		2.5
Rental Market							
October Vacancy Rate (%)	4.3	3.7	3.2	2.5	-0.7	2.2	-0.3
Two-bedroom Average Rent (October) ($)	1,052	1,052	1,067	1,085	1.7	1,105	1.8
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.10	6.29	-0.12
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.18	6.80	0.17
Annual Employment Level	2,707,300	2,763,400	2,802,100	2,850,000	1.7	2,898,000	1.7
Employment Growth (%)	2.2	2.1	1.4	1.7	-0.3	1.7	0.0
Unemployment rate (%)	7.5	7.0	6.6	6.4	-0.2	6.4	0.0
Net Migration	66,513	63,335	64,504	65,000	0.8	66,000	1.5%

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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